



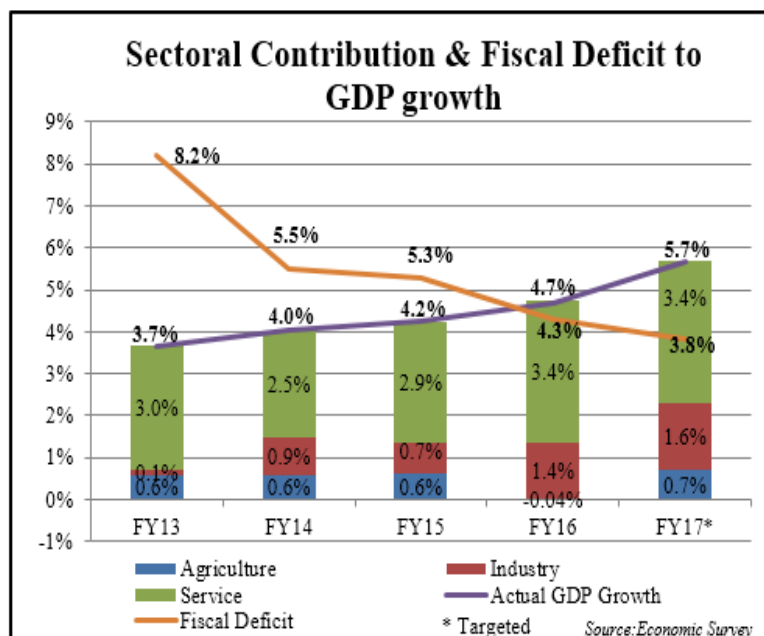
BUDGET FY17 SNAPSHOT

IMPACT ON MICROFINANCE PROVIDERS

June 2016

| Budget Summary - PKR Bln | | | |
|--------------------------------|--------------|--------------|--------------|
| | FY16 (R) | FY17 (B) | % change |
| Total Budget Outlay | 4,479 | 4,895 | 9.3 |
| Inflows | 4,479 | 4,895 | 9.3 |
| Internal Resources | 3,406 | 3,572 | 4.9 |
| i. Tax Revenue | 3,420 | 3,956 | 15.7 |
| ii. Others | 1,839 | 1,752 | -4.7 |
| iii. Provincial Share | (1,852) | (2,136) | 15.3 |
| External Resources | 860 | 820 | -4.7 |
| Privatization Proceeds | 14 | 50 | 267.6 |
| Bank Borrowings | 199 | 453 | 127.8 |
| Outflows | 4,479 | 4,895 | 9.3 |
| Current Expenditure | 3,600 | 3,844 | 6.8 |
| i. General Public Services | 2,559 | 2,707 | 5.8 |
| ii. Defence Affairs & Services | 776 | 860 | 10.9 |
| iii. Others | 265 | 277 | 4.3 |
| Development Expenditure | 879 | 1,051 | 19.6 |
| i. Federal PSDP | 661 | 800 | 21.0 |
| ii. Others | 217 | 251 | 15.4 |

R: Revised
B: Budgeted



Key Economic Indicators & Budget Highlights:

- ❖ Pakistan achieved GDP growth of 4.7% with per capita income of USD 1,561 in FY16. The fiscal deficit stood at 4.3% while remittance and foreign reserves grew steadily. Inflation was recorded at 2.8%.
- ❖ Agriculture sector witnessed negative growth as unfavorable weather conditions and flood led to 6% drop in crops production. Meanwhile, wholesale & retail sector witnessed 4.6% growth (FY15: 2.6%) as service sector grew by 5.7% and manufacturing posted 6.8% growth. Small and household manufacturing witnessed 8.2% growth.
- ❖ In FY17 budget, the government shifted its focus to growth, emphasizing revival of agriculture sector and exports.
- ❖ Government's drive to document the economy, focus on enhancing tax revenues, and increasing cost for non-filers persists.
- ❖ Social net strengthen with allocation of grants for Benazir Income Support Programme (BISP), cash relief for farmers, various initiatives and loan schemes to generate employment.

| Economic Indicators | FY15 | FY16 (Jul-May) | FY17 Target |
|--|--------|----------------|-------------|
| i) Per-Capita Income (USD) | 1,512 | 1,561 | N.A |
| ii) Inflation (Average) | 4.8% | 2.8% | 6.0% |
| iii) Policy Rate (Average Discount Rate) | 8.8% | 6.0% | N.A |
| iv) Fiscal Deficit to GDP | 5.3% | 4.3% | 3.8% |
| v) Remittances (USD Mln) | 15,235 | 16,034 | 21,300 |
| vi) Forex Reserve (USD Mln) | 18,699 | 20,922 | 23,600 |
| Social Safety | | | |
| i) BISP disbursements (PKR Mln) | 93,000 | 95,294 | 115,000 |
| ii) Prime Minister's Initiatives (Expenditure Incurred, PKR Mln) | 7,000 | 19,000 | 20,000 |

| Areas | Proposals | | | | | | | | | | | | | | | | |
|----------------------------|---|---------|----------|---------|----------|------------------|--------|--------|--------|-------------------|--------|--------|--------|----------------------------|------|------|------|
| FUNDING SCHEMES | <p>Positives:</p> <ul style="list-style-type: none"> PKR 1.5bln (FY15: PKR 1bln) allocated to Crop Loan Insurance and Credit Guarantee Scheme for small farmers. Credit Guarantee scheme provides 50% coverage against loan losses. Impact: These schemes will protect microfinance lenders against potential losses and may reduce financing cost for borrowers. Prime Minister’s Kissan Relief Package to provide PKR 40bln cash stipends to support farmers. Impact: The relief package will be given to farmers who have incurred losses due to flood supplementing their repayment ability. Prime Minister’s National Health Insurance Program to continue. Impact: In the initial phase the scheme covering 23 districts will provide PKR 9bln premium in three years (FY16-FY18). The scheme creates possibility of providing coverage of up-to PKR 250,000 for eligible individuals against expenses due to health problems and protects microfinance providers (MFPs) against potential losses and expenses. <p>Neutral:</p> <ul style="list-style-type: none"> Allocations for BISP increased by 13% and remained same for Bait-ul-Maal <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="background-color: #D9E1F2;">BISP</th> <th style="background-color: #D9E1F2;">FY16(B)</th> <th style="background-color: #D9E1F2;">FY16(R)</th> <th style="background-color: #D9E1F2;">FY17 (B)</th> </tr> </thead> <tbody> <tr> <td style="background-color: #D9E1F2;">Allocation (PKR)</td> <td>102bln</td> <td>102bln</td> <td>115bln</td> </tr> <tr> <td style="background-color: #D9E1F2;">Targeted Families</td> <td>5.3mln</td> <td>5.0mln</td> <td>5.6mln</td> </tr> <tr> <td style="background-color: #D9E1F2;">Bait-Ul- Maal (PKR)</td> <td>4bln</td> <td>4bln</td> <td>4bln</td> </tr> </tbody> </table> <p>Impact: Although this may be viewed as an increase in competition, BISP is disposable income meant for basic necessities. Hence, it is not likely to impact MFPs and may reduce the risk of micro loans being used for consumptive purposes.</p> <ul style="list-style-type: none"> PKR 20bln allocated for different Prime Minister’s schemes. Impact: Prime Minister’s schemes include i. Youth business loan, ii. Interest free loan, iii. Provision of laptops, iv. Youth training program and v. Youth skills development program. These loans offered at subsidize rate will be in direct competition with MFPs. However, loans routed through PPAF will provide funding for MFPs and are beneficial for the industry. | BISP | FY16(B) | FY16(R) | FY17 (B) | Allocation (PKR) | 102bln | 102bln | 115bln | Targeted Families | 5.3mln | 5.0mln | 5.6mln | Bait-Ul- Maal (PKR) | 4bln | 4bln | 4bln |
| BISP | FY16(B) | FY16(R) | FY17 (B) | | | | | | | | | | | | | | |
| Allocation (PKR) | 102bln | 102bln | 115bln | | | | | | | | | | | | | | |
| Targeted Families | 5.3mln | 5.0mln | 5.6mln | | | | | | | | | | | | | | |
| Bait-Ul- Maal (PKR) | 4bln | 4bln | 4bln | | | | | | | | | | | | | | |

TAXATION

Positives:

- **Various relief incentives and concessions on inputs of Agriculture sector.**
Impact: The budget provides several measures aimed at revival of agriculture sector. The reduce cost of inputs (reduction in fertilizer price by 12% per bag, sales tax exemption on pesticides) will improve margins for farmers, in turn, their repayment ability.
- **Tax credit of 20% on tax payable for enlistment in stock exchange to be made available for 2 years instead of 1.**
Impact: MFBs intending to get listed will gain the benefit of tax credit for an additional year.

Neutral:

- **Capital gain tax on securities and dividends from mutual funds to continue.**

| Tenure | Existing | Proposed | |
|--|----------|----------|------------|
| | | Filers | Non-Filers |
| Holding period less than 12 months | 15% | 15% | 18% |
| Holding period between 1 year – 2 years | 12.5% | 12.5% | 16% |
| Holding period between 2 years – 4 years | 7.5% | 7.5% | 11% |
| More than 4 years | 0% | 0% | 0% |
| Tax on Dividends from Mutual Funds | 10% | 10% | 15% |

Impact: The rate of capital gain remains same for fillers, but has been increased for non-fillers. MFPs that have an investment portfolio will have to pay tax on capital gains and dividends.

Negatives:

- **Super Tax Rate of 4% on banking companies extended for another year.**
Impact: The extension of super tax for another year will impact the profitability of MFBs.
- **Clarification through Finance Bill regarding the exemption of PKR 50,000 per day limit for WHT on banking transaction has been applicable in aggregate to all bank accounts in the same bank.**
Impact: This provision will impact commercial banks and Microfinance banks (MFB) alike, as it relates to all depositors who do not file their tax returns. Hence, there will not be any competitive disadvantage. This may have operational significance for MFBs. Now MFBs have to implement system, if not already in place, to consolidate and have information of various accounts of a single customer.
- **WHT on commercial electricity bill above PKR 20,000 to be increased from 10% to 12%.**
Impact: MFPs expenditure on electricity will increase as offices and branches have commercial connections.
- **Advance tax to be collected from non-filers on insurance premium: 4% on general insurance, 1% on life insurance premium exceeding PKR 200,000**

| | |
|-------------------------------|--|
| | <p>Impact: The cost of business/loan will increase for micro-borrowers where insurance is in their name. However, it will have no impact if insurance is part of the loan and issued in MFBs favor. The life insurance policy holders will not be impacted, at large, since premium is usually lower than specified limit.</p> <ul style="list-style-type: none"> • Implementation of 1% minimum tax on turnover of companies declaring gross losses. Impact: MFBs declaring gross losses will have to bear additional tax burden • Withholding tax on services rendered by print and electronic media to be enhanced to 1.5% from 1%. Impact: MFPs availing print / electronic media services for promotional and advertisement activities will have to pay higher withholding tax. |
| OTHERS/ REGULATORY | <p>Positives:</p> <ul style="list-style-type: none"> • Low Inflation scenario envisaged to continue Impact: The low average rate of inflation (FY16: 2.8%) is positive for MFPs target market. The government is targeting 6% inflation for next year. Although it is an increase from preceding year, it is not expected to put significant strain on borrowers. • Policy rate (Discount rate) averaged 6% in FY16 and is currently at 5.75%. Impact: The reduction in policy rate will have two-prong effect on the sector. The cost of funds for MFPs will go down in line with low interest rate environment. However, return on interest bearing deposits and investments will also come down. The proportionately higher decline in cost of funds will improve spreads as low interest rates are expected to prevail in near future. <p>Neutral:</p> <ul style="list-style-type: none"> • Transfer pricing documentation in respect of all transactions undertaken with associates made mandatory Impact: The requirement of documentation related to transactions with associates are made more stringent to enhance transparency. This will increase operational burden for MFPs that have large number of transactions with associate/group companies. • Minimum wage rate enhanced from PKR 13,000 to PKR 14,000. Impact: All employees of MFPs earning below PKR 14,000 will now be paid more impacting the institutions' bottom-line. On the other side, micro-borrower's disposable income will go up, in turn, enhancing their ability to repay loans. <p>Negative:</p> <ul style="list-style-type: none"> • Reduced mark-up rates of Zarai-Tariqati Bank, National Bank of Pakistan, Bank of Punjab and Punjab Co-operative by 2% Impact: The government along with SBP is working with above mentioned banks to offer loans with reduced mark-up rates. Some of these loans, especially in agriculture and livestock segment, will become more competitive versus products offered by MFBs and certain MFPs. |